

THE COST OF OCEAN CARRIAGE

AN ARTICLE

RELATING TO THE COST OF OCEAN CARRIAGE
ITS INFLUENCE ON THE WORLD'S PRICE AND
THE HOME PRICE OF STAPLES. ITS BEARING
ON ECONOMIC, SOCIAL, AND POLITICAL LIFE
OF NATIONS, AND THE NEEDS FOR AN
INTERNATIONAL COMMERCE
COMMISSION

By

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PRESENTED BY MR. SMOOT

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COST OF OCEAN CARRIAGE.

INTRODUCTORY NOTE.

THE NEEDS FOR AN INTERNATIONAL COMMERCE COMMISSION.

The slightest turn of the wheel directs the motion of the automobile. The slightest change in the cost of carriage directs the price movement of the staples. The slightest movement in the world's price of the staples directs the economic, the social, the political life of the people. What the wheel is to the movement of the automobile the cost of carriage is to the price movement of the staples. In farming districts tributary to a local commercial center, the results of abnormally high or unsteady rates of carriage on products to that center will soon make themselves manifest in the districts in trade depression and its concomitant evils. Widen the area and let it be a State thus affected, and you widen the area of the evil. Widen the area affected still further until it embrace various sections of a nation, and you enlarge the area of the evil until it becomes nation-wide.

The modern trend is shown in the various efforts to combat this evil and to hold it in check; in the small district through farmers' organizations, with the aid of local boards of trade and local government in the State through State organizations and State legislation; in the nation, if strongly centralized, or if it own the means of transportation, through central government action; and, when not centrally centralized, as is the case in the United States, through an interstate-commerce commission.

And here the endeavor to check this evil seems to end. But is it sufficient? By no means; not so long as the endeavor stops short of so important a price-determining factor as the cost of ocean carriage in international trade.

It must be borne in mind that in international trade the cost of carriage not alone determines the home price of the staples in the country from which the product is exported, but it becomes a factor in shaping the world's price; hence, indirectly, it becomes a factor in determining the home price in other countries.

Now, supposing the cost of ocean carriage be abnormal, unknown in advance, and subject to sudden fluctuations, what effect must this have? Must it not tend to disturb the economic, the social, the political life of the people everywhere?

And is not this the case at the present time? Is not the cost of carriage abnormally high at one time and abnormally low at another, unknown in advance, and subject to sudden fluctuations?

And what is the remedy? What but an international commerce commission on lines similar to the Interstate Commerce Commission

of the United States? A commission that will bring about rates, rates known in advance, rates not subject to sudden fluctuations.

That there is precedent for this can be seen from the commission known as the International Postal Union. The Postal Union was formed for the purpose of doing away with former crudities in international postal service, and we all see how well it has performed that service and how valuable it has been to the world. Yet as was the need for the International Postal Union it is transpired by the need for the proposed international commerce commission.

Such a commission must come some time. Why not now?

DAVID LUBIN,
*Delegate of the United States,
International Institute of Agriculture, Rome,*

JANUARY 29, 1914.

[Copy of letter from Mr. David Lubin to the secretary of the Chamber of Commerce of New York City on the cost of ocean freight rates for the staples of agriculture.]

INTERNATIONAL INSTITUTE OF AGRICULTURE,
Rome, Italy, December 11,

SERENO S. PRATT, Esq.,
Secretary Chamber of Commerce, New York, N. Y.

DEAR SIR: I have your valued letter of November 24, in which you mention the 5th and 7th on the question of reporting the cost of ocean carriage for the staples of agriculture. I am pleased that you say "our chamber would be willing to cooperate with us in giving out any information that we feel would be of real value." You point out, however, that there are difficulties in the way of our doing so. It would be likely to render the information on cost of ocean rates now available of no utility. You say:

We have carefully noted your comments and the marked clauses in the (S. Doc. 961). The matter has been given very careful attention by one of our committee on foreign commerce and revenue laws, who has made inquiries in this matter among the agents of the shipping companies on our New York Exchange. * * * It would be extremely difficult to give any definite information in regard to freights that would be of value in publishing the world's cereals.

You further say:

You no doubt are aware that freight rates, particularly for agricultural products, change almost daily and sometimes several times during the day, depending on demand or otherwise for freight room. Rates quoted to-day would be only for 24 hours, and they are constantly influenced by the fluctuating demand in the various steamers. * * * Frequently wheat has been carried between the United States and London free of any charge, being simply used for ballast on steamers, and at other times the rate has advanced to 10d. and 12d. per bushel.

Now, if what you say of New York also holds good of the other world market centers, what guide, then, have buyer and seller in determining the equity of the relation between prices current elsewhere and the home price? If the cost of ocean carriage influences the home price of the product, and if this cost fluctuates to an extent which makes it practically an unknown quantity, what conclusion are we driven to? What but this, that buyers and sellers everywhere lack the data on which to base their calculations so far as this price forming factor is concerned? That is to say, that buyer and seller, in determining

they should pay and what they should receive, have to guess the probable cost of carriage in the various ports of the world or trust to luck and chance. If this is the case in the distribution of staples of agriculture on such a progressive market as New York is surely a sad commentary on the state of commercial progress in the twentieth century.

On this subject and your comments up to-day with the head of the statistical bureau of this institute, who gave it as his opinion, while your statements are based on facts, your conclusions are necessarily final. His argument was that all information regarding staples, whether on condition of the crops, whether on probabilities, or whether on ruling prices, is also subject to fluctuations, therefore, if these fluctuations be a reason for not giving the cost of ocean carriage, they would hold equally good as a reason for not giving information on the other points just mentioned. It is his opinion that by giving the maximum, minimum, and average freight quotations for the preceding week, the institute would supply information that would prove of effective value in obtaining a grasp of this important factor in price formation.

His opinion seems to me to be valid. The institute could begin its service by giving the maximum and minimum rates and weekly quotations for ocean carriage at the various world market centers, moderating this branch of information for the present to the conditions which now confront us, and at the same time striving to direct it as to bring it ever closer to an ideal standard. However the proposed service might be at the start, when once begun it can be expected that successive steps would lead toward the regulation of distribution on broader economic lines than are now possible. It would seem to me that at no time has a better opportunity been afforded for such an endeavor than now that this International Institute of Agriculture is here. Its work in the field of world crop raising has demonstrated the benefits of economic action on international lines. As a result of such international action it now gives an official and authoritative summary on the condition and yield of the world's staples. That is one step, the first step. The next step forward should be the assembling and disseminating of world information on the cost of ocean carriage. The need for this service becomes obvious when we take into consideration that an important factor determining the price is not merely the cost of ocean carriage in any one single port, in any one single country, but its cost in every port, in every country. An undue rise or fall in the cost of ocean carriage at Odessa or Rosario may have its effects felt at New York, London, or Seattle. The assembling of the world data on ocean carriage, and the placing of same in comparable form would not alone make possible rational calculations of price based on facts, but would make it possible to work toward intelligent adjustments of freight

The problem before us is an international one and can only be solved by action on international lines; and now that the institute is in existence such action is rendered possible. And the time is now at hand when the chambers of commerce and boards of trade of the various nations, cooperating with their national departments of agriculture, should supply such complete data to the institute on price-forming factors as to enable it to give to all concerned a

complete and continuous bird's-eye view of the world's situation. By this means the shipping companies could be kept informed of the surplus and deficit in the supply of the staples in each country, of the needs of tonnage in certain ports, and of the possibilities of synchronizing incoming and outgoing cargoes. Thus the factors determining the cost of carriage would no longer be left to chance, but knowledge and system would regulate the distribution of the world's shipping in the different ports.

The possibility thus afforded the shipping companies to distribute more effectively their ships would not only be of economic benefit to producers and consumers, but also to the companies themselves, for their dividends would be likely to be higher under a system of knowledge and consequent order than under present conditions. Ships would no longer carry wheat free as ballast one time and cost 10d. or 12d. per bushel another time, but a fair average rate for different routes could be fixed and made known in advance, which would have a decided steadying effect on the markets of the world.

When once all this would be fairly on the way toward accomplishment, it would then be possible to regulate the distribution of the staples with some degree of precision. It may even be that the work of the institute may ultimately lead to the formation of an international commerce commission, having functions something like those of our Interstate Commerce Commission, all to the end that the factors determining price formation be brought within the control of knowledge and system and thus withdrawn from the influence of chance and fortuity.

In view of your statement that "the chamber would be willing to cooperate in giving out information of real value," and in view of what has here been set forth, I would most earnestly and respectfully suggest that your chamber pass a resolution favoring an international service, under the auspices of this institute, for reporting on the cost of ocean carriage for the staples of agriculture. I should be pleased to hear from you on this matter.

Thanking you in advance for your attention, I am,
Yours, very truly,

DAVID LUBIN,
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International Institute of Agriculture, Rome, Italy*

THE COST OF OCEAN CARRIAGE.

INTERNATIONAL INSTITUTE OF AGRICULTURE,
Rome, Italy, January 29, 1914

In my annual report for 1913 to the Secretary of State on the work of the International Institute of Agriculture (S. Doc. 111) I stated:

The monthly crop reports of the institute now exercise a decisive influence on price formation for the staples of agriculture, as evidenced by the serious consideration given them by the press of the world.

Important as this work is, it was, however, understood from the start that the world information on area and production of the staples only dealt with one branch of the price-forming factors, and that the institute would from time to time as permitted by its task

g this service until it should embrace all price-determining
 for the staples. As the cost of ocean carriage so largely
 eces the world's price and the home price of these staples, it
 ed to me that the time had come for the institute to take up
 evice on freight rates for ocean carriage. Accordingly, at the
 neral assembly (May, 1913) I presented a paper to that effect.
 sult it was decided that the institute make preparatory studies
 hese lines.

ne then I have taken the matter up with various correspond-
 amongst whom the Hon. Walter Scott, premier of Saskatchewan
 a), from whom I received two letters on the subject (October
 n December 24, 1913). In replying to these letters important
 us of the question presented themselves which led to the fol-
 n paper.

is letter of October 21 Mr. Scott said:

subject of the cost of ocean carriage is being given a great deal of attention in
 so much so that the head of the Canadian railway board (Mr. Drayton) was
 sent to England to inquire into the question with the purpose of ascertaining
 any action is open to the Canadian authorities which would likely lead to a
 ig of the exceedingly high rates in force at present. These rates, I understand,
 within the past two or three years been largely increased. The question has
 acute in Canada.

have since received from Mr. Doherty (Canadian commissioner
 n institute) a newspaper report on Mr. Drayton's inquiry. I
 hat Mr. Drayton points out that the subject has already en-
 the attention of the British Board of Trade, which, in 1910,
 mnicated with the undersecretary of state regarding it. The
 rstates:

the 15th of April, 1912, in pursuance of a resolution passed by the imperial
 ce of 1911, on the motion of the Canadian prime minister, a joint royal com-
 was appointed. * * * It has visited Australia and New Zealand, and has
 idence on the subject of freight rates between the United Kingdom and
 minions.

ote further from the report that one of the proposals advocated
 M. Drayton is the establishment, between Great Britain and
 a, of a "joint tribunal" for the purpose of fixing rates. Ex-
 ng the purpose of this "joint tribunal," he says:

el would seem to be no reason why standard maximum rates should not be
 l an independent authority.

n is interesting to me, for in the study of this subject I was led,
 six or seven years ago, to a like conclusion, though wider in
 which I then presented to ex-Secretary Wilson, of the United
 e Department of Agriculture. The conclusion I arrived at was
 he economic interests of all concerned would be served by the
 shment of an international commerce commission with func-
 sand powers on the lines of those of the American Interstate
 erce Commission.

the question then arose, Would such an international commis-
 e able to enforce its rulings? That, of course, would depend
 he powers vested in it. It could, for instance, be constituted
 or as an advisory and consultative body or it could be given
 es under a treaty fully as large as those conferred on the United
 e Interstate Commerce Commission.

And now let us return to the consideration of Mr. Drayton's proposal for a "joint tribunal." The following objections to its capability occur to me if it were to be limited to Great Britain and Canada:

In the first place, this proposal could be construed as an attempt to coerce the shipping interests, the world's carriers, into conceding special advantages in the matter of ocean carriage to Canada directly and to Great Britain indirectly at the expense of other countries.

In the second place, as the home price of the staples is governing the world's price, the proposed special advantage for Canada would be largely neutralized through the influences exercised on the world price by the freight rates prevailing in countries having no special advantage.

I think it can be shown that the question before us can not be narrowed down to the limits of one or two countries. It is broader than a local issue; it is broader than a national issue; it is, in fact, an international issue. Nor can it be narrowed down to a mere question of high rates or low rates. The real question is one of steady, fixed rates, equitable rates, rates periodically fixed in advance for the principal world's ports and promptly made public.

That there is an adequate basis for this stand can be clearly shown by the following illustration:

Let us say that the price of wheat is \$1 a bushel in Liverpool—that is to say, \$1 a bushel is offered for wheat delivered at the Liverpool pool warehouse. Wheat is therefore worth \$1 at the exporting port. At New York, Seattle, Montreal, Rosario, Odessa, etc., less the cost of carrying it from any of these ports to Liverpool. Now, if the cost of carrying wheat from New York to Liverpool be 24 cents, the price in New York will be deducted from the dollar, leaving the New York price at 76 cents; 76 cents not only for the quantity exported but also for the entire quantity in the home market, for it is a well-known fact that the home price and the export price is the same. But if the cost for carrying be nothing, if wheat be carried, say, from New York to Liverpool free of charge, as ballast, the price in New York will then be (barring deductions for minor expenses) \$1 as in Liverpool. So, here we have an example in which the price in New York is \$1 a bushel one day and 76 cents a bushel the next day.

That this is no fanciful nor overdrawn statement is shown by the following: In reply to my inquiry as to whether this institute could be supplied with regular reports on the cost of ocean carriage, the New York Chamber of Commerce informed me, November 24, 1913, that as there was so much fluctuation in the rates for ocean carriage the publication of those rates could not be of economic value. Confirmative of its statement the chamber said:

Freight rates, particularly for agricultural products, change almost daily and sometimes several times during the day. * * * Rates quoted to-day would be of no value for refusal for 24 hours. * * * Frequently wheat has been carried between the United States and London free of any charge, being simply used for ballast in the steamer and at other times the rate has advanced to 10d. and 12d. per bushel.

It seems to me that instead of disproving the needs for the proposed service, the New York Chamber of Commerce has given evidence which strongly supports my contention, for here we have an example of the cost of freight ranging anywhere from nothing to 12d. (12 cents) per bushel.

part from the question whether these charges be equitable or if the variations in freight rates were known in advance there might then be an opportunity to regulate buying and selling accordingly. But when the rates fluctuate as suddenly as in this illustration and when the cause of these fluctuations is uncontrolled, in what position does this place buyer and seller? In what position does it place producer and consumer? And right here is where the opportunity comes in for price manipulation; manipulation for undercharging in buying and manipulation for overcharging in selling. And what is the difference? Is it not the farmers on the one hand and the consumers on the other? To be sure it is. The farmers and the consumers of one country? Yes; and of two countries, and of three countries, and of 50 countries; the farmers and the consumers of the whole world.

What about this underpaying and overcharging? What is its effect? Does it not frustrate that more equitable economic relation which would otherwise exist? Do not the evils consequent on such economic disturbance permeate in every direction?

What is the cause? Let us see if it can not be traced to the present mode of rate fixing for the cost of ocean carriage; a mode which while it secures to the few having advance and private information on freight rates a free hand in one market and a free hand in other markets, leaves the great mass of buyers and sellers in perplexity, to which forces the transactions of buyers and sellers down to the level of guesswork.

Such is the case. Given a combination of shipping interests with a board of directors making out the routes in advance, with a full understanding as to what the rates are to be in the various bourses and given further that this advance information is used on the bourses or exchanges, and what is likely to follow? What but that the few holders of such advance information will be in a position to operate in the bourses or exchanges as successfully and with little risk as a gambler playing with loaded dice, when surrounded by unsophisticated and eager players.

Moreover, the few holders of such advance information are not confined to one market center, but such information enables them to manipulate, directly or indirectly, the principal market centers of the world, whether in exporting or in nonexporting countries, and to continue this kind of a loaded-dice game the world around, all at the expense of the producers and the consumers everywhere.

An example illustrating such a state of affairs was offered by the United States shortly after the completion of the transcontinental railways. At that time the artful and arbitrary manipulation of freight rates by the railroad companies placed the American farmer in the mercy of unscrupulous price maneuvering of the staples. Law was enacted by the States in the endeavor to remedy this by regulating rates, but without avail. It was finally perceived that only interstate authority could deal with the evil. As a result the Interstate Commerce Commission was established and this, in a measure, has remedied the situation.

In a communication of December 22, speaking on the impotency of purely national law to deal with the problems of price manipula-

tion, Sir Sydney Olivier, permanent secretary to the British board of agriculture, says:

My own opinion has long been that the operation of trusts being now international the problem presented by their development can only be efficiently handled by national conventions. * * * Work of this kind is work which the government of the world will be more and more driven to undertake.

Is not this a clear and concise statement of the case?

We may thus see from all the foregoing that just as a permanent interstate commission was required to adjust the equities in rail carriage between the several sovereign States of the Union, a permanent international commission is required to adjust the equities in ocean carriage between the sovereign nations of the world.

Assuming for the time being that such a permanent international commission is required, what should be the consecutive steps to its realization?

It would seem to me that the preliminary step should be for the adhering nations to transmit monthly to the International Institute of Agriculture the maximum, minimum, and average ocean freight rates prevailing in the leading ports of the world. These data, appearing for a stated period in the institute's monthly Bulletin of Agricultural Statistics, placed for the purposes of comparison alongside of those of production and of the prices current in the buying and selling centers of the world, would soon clearly manifest the need for the international commerce commission here proposed, for reports would show what the prices were and what they should have been.

This, in substance, is also favored as a preliminary step by Sir Sydney Olivier. He says:

The collection and presentation, on a system internationally agreed to, of facts and statistics is an essential preliminary.

With this as a starting point, the permanent committee could submit to the general assembly of the institute a report calling for action toward the establishment of the international commerce commission.

The second step would be the establishment of the proposed international commerce commission with consultative and advisory powers.

The third and final step would be to enlarge the powers of the commission until it would ultimately be granted powers and functions similar to those of the Interstate Commerce Commission of the United States.

The basis for such a commission is already here in the International Institute of Agriculture, which is established under treaty by the nations for dealing with economic problems along international lines.

But right here the question may be asked, Would there not be difficulty in bringing about the proposed international commerce commission? Would not the great interests that profit under present methods block up the road?

Before answering let us first define what these interests are. In the first place, come those few operators in the bourses and exchanges who have this advance information. In the second place, come the shipping interests.

so the operators, it would be a serious mistake to underestimate power and influence. Nevertheless there are other powers and force which, if awakened, would be more potent than theirs. It is the power and influence of public opinion and there is the power and influence of united action by governments.

For the shipping interests, the difficulty with them would not be great, for performing as they do a legitimate commercial function they are entitled to a just compensation. Their interest centers in the volume of their net returns, therefore any condition best calculated to promote their net returns would be sure to meet with approval.

I believe it can be shown that the proposed international commerce commission would not merely be in the interest of producer and consumer, but likewise so of the shipping interests. I believe it can be shown that it would increase their net returns. This will be taken up further on. Right here let us touch upon the glaring defect of the present system, a defect which not alone reduces the net returns of the shipping interests but which is the root and cause of the disturbance existing under present conditions, a disturbance so far-reaching as to affect the equities in the world's price and the equities of the price in the home markets; a disturbance which directly and indirectly affects the economic, social and political conditions of the people everywhere.

The defect which I refer to is the lack of organized method in the handling of incoming and outgoing cargoes. As a result, the returns of the business of ocean carrying are rendered precarious, uncertain, and inequitable. Sometimes the charges are nothing, and a cargo of wheat may go as ballast, and right thereafter the same cargo charge from the same port (as was shown before in my quotation from the New York Chamber of Commerce letter) may be as high as 12d., or 24 cents per bushel.

Speaking on this subject, the delegate of Argentina to this institution says:

"The question is of the greatest importance for my country, for it is well known that agricultural exports, not only of cereals but also of frozen meats, are increasing every year, and sometimes these increases are so unexpected that the shipping companies have not provided sufficient ships for the requirements of the case.

A pertinent comment is likewise made by the delegate of Russia, who says:

"The chief point in the matter is really the difficulty of obtaining return cargoes for the voyage of the ships, and the necessity of returning in ballast is often one of the reasons of the irregularity in the freight rates.

Now let us return to the proposal for the international commerce commission. I think that its adoption would afford a remedy to the present situation. Under such a commission it seems to me there is no reason to believe that it would be possible to organize and carry out a system for synchronizing freights everywhere, thereby bringing full outgoing and incoming cargoes.

It will be conceded that the mean rate resulting from the work of the proposed international commerce commission would, by a more equitable adjustment of the local incidence of the rates, by leveling out abnormally high and the abnormally low charges, be likely to give the carriers a higher net return, and at the same time would

greatly promote the interests of producers and consumers by stabilizing the world's price.

Fortunately, the International Institute of Agriculture is well equipped and could serve as a ready means for carrying out the work of the said commission toward this synchronizing system. The institute, being a Government institution, in direct communication with all countries, could, if empowered to do so, enlist in this service the active cooperation, through organized and regular correspondence, of the chambers of commerce, boards of trade, and the farming organizations in those countries.

With this accomplished, there would then be no reason why freight rates could not be fixed in advance, and made public sufficiently enough ahead to serve the necessary purposes of all concerned in production and distribution.

But there is yet another difficulty which must not be lost sight of, and that is the attitude the nations may be expected to take on the question—a difficulty pointed out by all the delegates to the institute to whom I have presented the matter. There are the interests of the buying nations and of the selling nations; the interests of those that have a large merchant marine and of those that have not; and besides this there are the various national policies, the national jealousies, and the real or imaginary conflicting national interests.

Notwithstanding, however, there are sufficient indications that the obstacles before us are not insurmountable, the unbiased observer will not have failed to observe that the past few decades have been remarkable for legislation along economic lines. There has been, for instance, been the legislation for legalizing associations of labor, factory laws; the employers' liability acts; the national sickness insurance acts; the old-age pensions acts; the antitrust laws; and legislation on cooperative associations. Then there are the actions along these lines of the recently created departments of agriculture, the departments of commerce, the departments of labor, and, in the United States, the Interstate Commerce Commission.

And what, we may ask, has been the motive behind all this legislation? The answer is a simple one: It was intended to ameliorate the economic conditions of the people.

But all this time is there not a cause at work which powerfully tends to neutralize such legislation? Does not this cause set in motion destructive currents to permeate throughout the economic world? And do not these destructive currents result from the present anarchic mode of fixing the rates of ocean carriage for the staples? Does not all this produce constant economic disturbance in many directions?

The significance of all this will be clearly manifest when it is realized that the world's price of the staples does not merely govern the price of the quantity exported, but that it also governs the price in the home market; that it governs the price of the entire quantity produced or consumed. We thus see that it governs the price of every mouthful of food consumed, of every garment worn. It governs the cost of living for the man, for the woman, and for the child, and it governs it not only in one country, but in every country in the world.

All this would indicate that the legislation above referred to is a means of ameliorating the economic conditions of the people.

coalliative, dealing, as it does, with the effects of the evil, and with the cause. We see, further, that unless such legislation be forced by action which will free the factors governing the world's markets, the world's price of the staples, from the pernicious influence of chance and manipulation, unless such legislation be reinforced by some such device as the proposed international commerce commission, it will fail in its purpose.

It would therefore seem to me that when the facts in the case will be given the serious consideration their importance deserves, nations would freely consent to extend the powers of the International Institute of Agriculture to embrace the service outlined in the treaty. This would round out the work of the institute on the lines shown for it by the treaty.

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JANUARY 29, 1914.



